



2012

**STRUCTURAL
CHANGE
FOR EQUALITY**

*An Integrated Vision
of Development*



*Thirty-fourth
session of ECLAC*

*San Salvador,
27 - 31 August*

Our proposal: An integrated approach to development



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For equality it is necessary to...

- Close economic and social gaps, both internal and external
- Spread throughout the economic and social structure:
 - Production and technology capabilities
 - Ample job opportunities
 - Social protection with universal access
- Strengthen the role of the State as a guarantor of rights and driver of policies for sustainable economic and social development



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Continuity and new directions

■ Continuity

- Democracy
- Low inflation and maintenance of macroeconomic equilibria
- Poverty reduction
- Channelling of public spending towards social policies

■ New directions

- Structural change for growth with productivity gains and generation of quality employment.
- Shift from a structure based on static comparative advantages to dynamic advantages.
- Coordination of industrial, macroeconomic, social and environmental policies



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Structural change for equality

Virtuous structural change is a **qualitative transformation of the production structure**. It drives and strengthens more **knowledge-intensive** sectors and activities that enjoy high **demand**, and it generates **more and better employment**, which is the master key to equality.

Equality is the objective; structural change, the path; and policy, the instrument.



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Structural change

- Needs:
 - Progress towards more knowledge-intensive activities
 - Reduction of production and territorial heterogeneity
- Enables
 - Growth at high rates
 - Better distribution of the factors of production and their benefits
 - Increase in quality employment
 - Environmental sustainability in the context of the technology revolution

Social issues are not resolved in the social sphere alone



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Structural change in the new international context



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Turning points in the global context

- Crisis in the advanced economies
- Growing importance of the developing economies, especially China
- The technology revolution
- The environmental challenge



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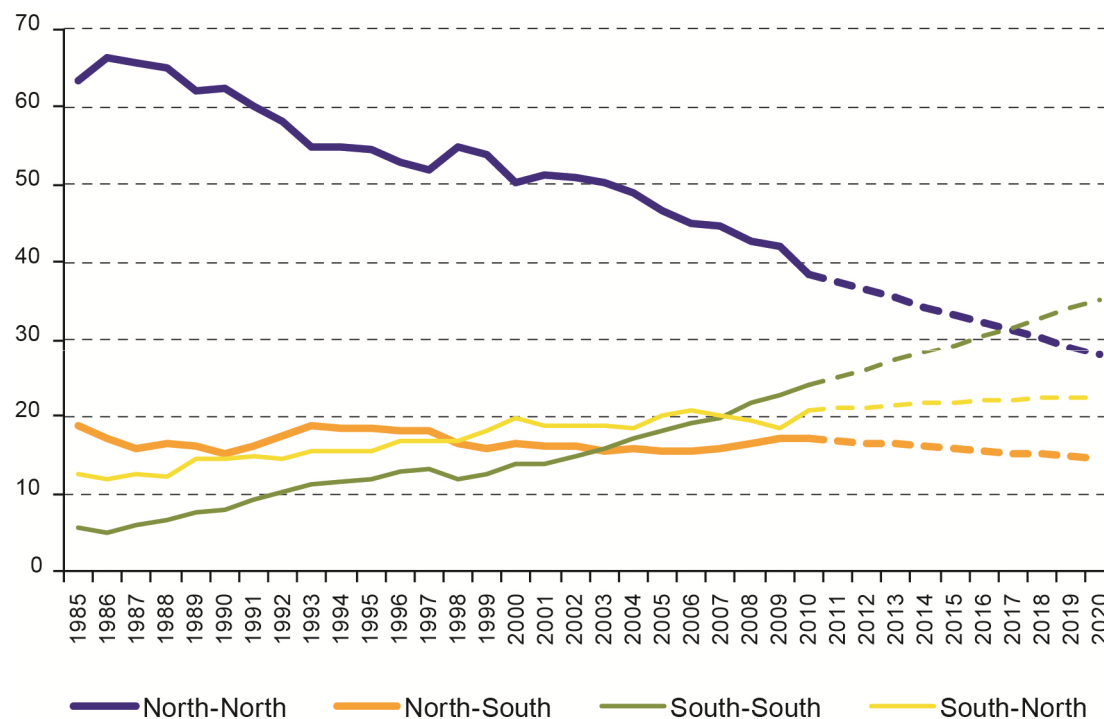
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The buoyancy of the developing economies is redefining the landscape of the international economy

EVOLUTION OF WORLD EXPORTS BY REGION, 1985-2020 ^a
(Percentages of total exports)



Source: ECLAC, on the basis of official figures.

^a Figures for 2011-2020 are projections on the basis of long-term linear trend.



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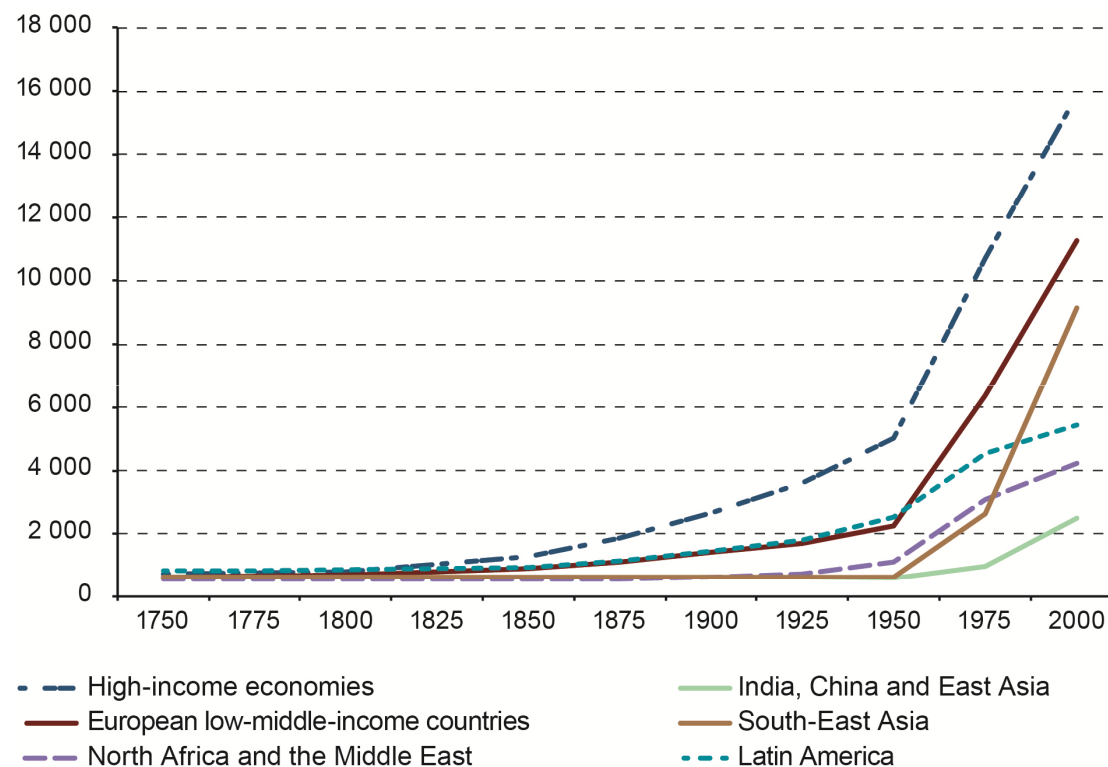


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The regions that join the technology revolution gain global competitiveness

PER CAPITA INCOME BY REGION, 1750-2000
(Dollars at 1985 prices)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators (WDI) [online database] <http://databank.worldbank.org/>, and Robert E. Lucas, "The Industrial Revolution: past and future", May 2004.



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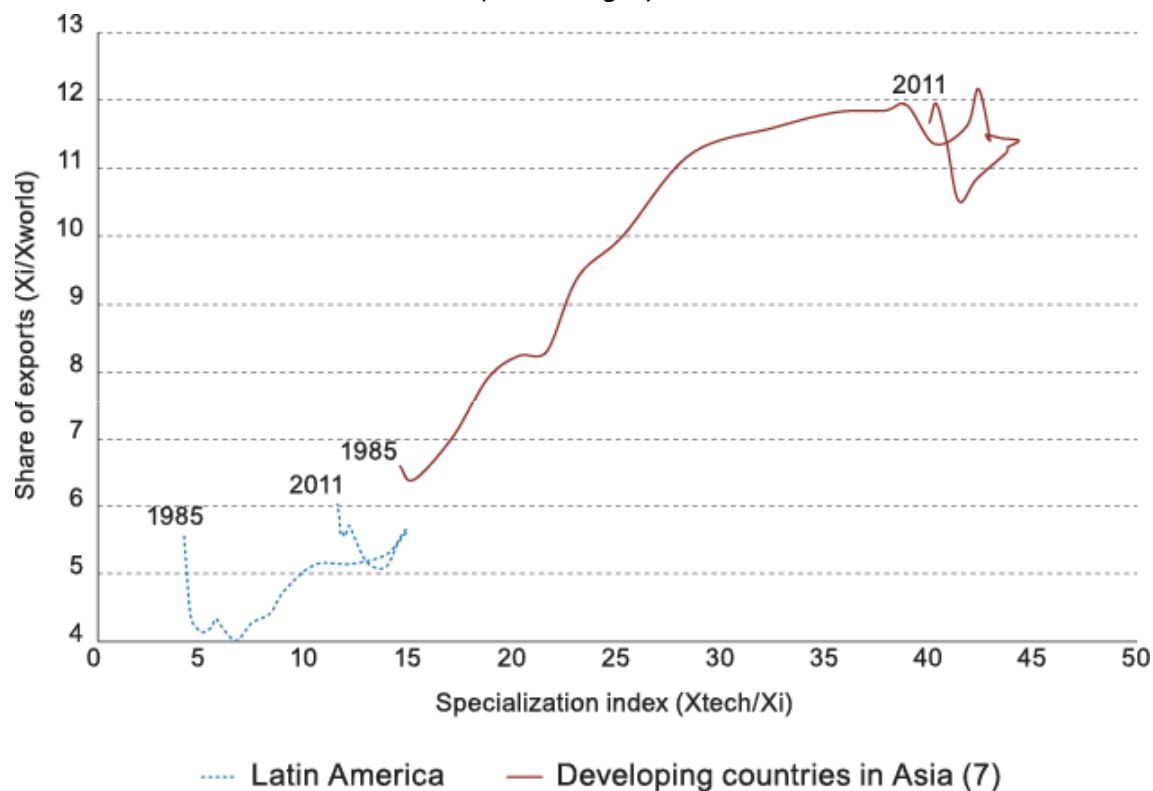


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Knowledge-intensive activities: the foundation of East Asia's success

LATIN AMERICA AND DEVELOPING COUNTRIES IN EAST ASIA: PATTERN OF STRUCTURAL CHANGE
AND SHARE OF EXPORTS, 1985-2011^a
(Percentages)



Source: ECLAC, on the basis of United Nations Commodity Trade Statistics Database (COMTRADE)
[online database] <http://comtrade.un.org/db/default.aspx>.

^a Technology exports are defined according to the classification used by Lall (2000). Latin America includes Central America, South America and Mexico. The developing countries of East Asia are Hong Kong Special Administrative Region of China, Indonesia, Malaysia, the Philippines the Republic of Korea, Singapore and Thailand.



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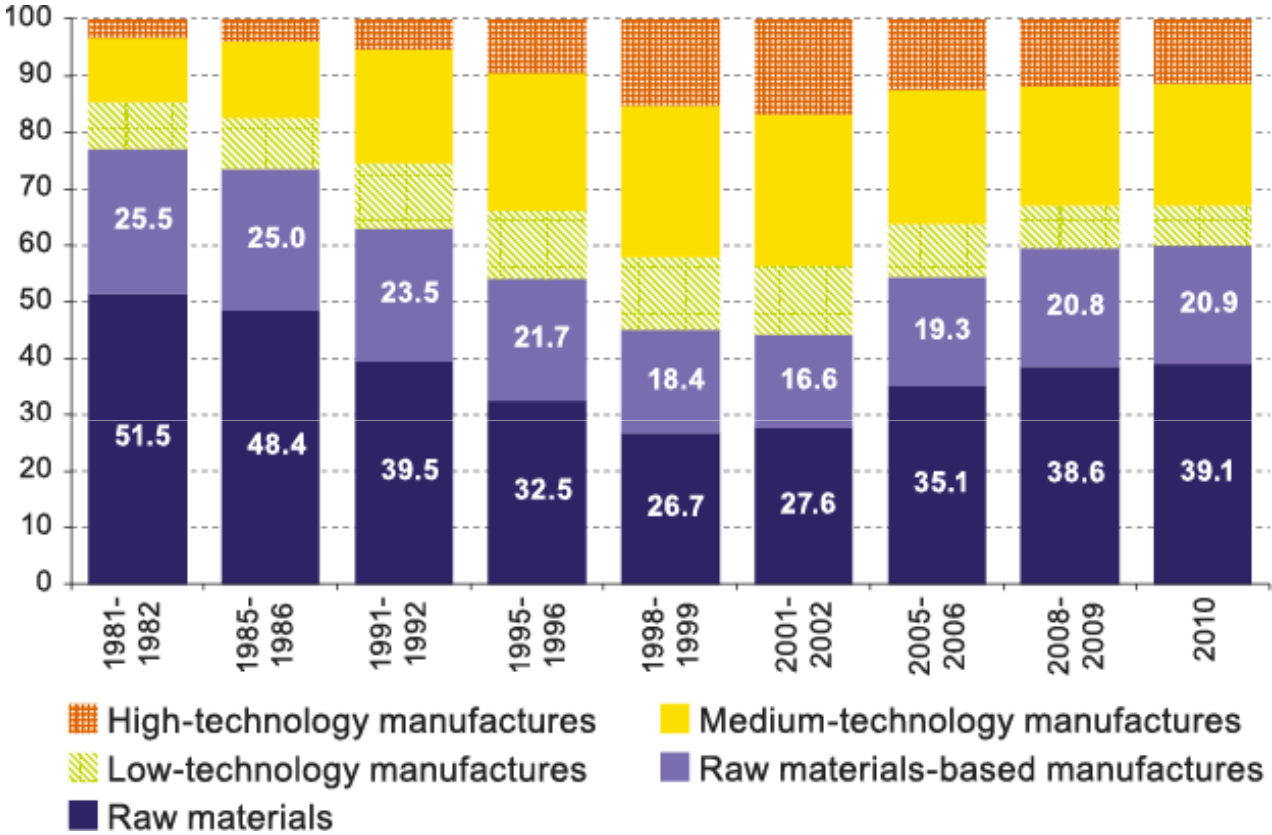


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Specialization in static comparative advantages

LATIN AMERICA AND THE CARIBBEAN: EXPORT STRUCTURE BY TECHNOLOGY INTENSITY, 1981-2010^a
(Percentages of the total)



Source: ECLAC, on the basis of United Nations Commodity Trade Database (COMTRADE).

^a Cuba and Haiti not included. Data for Antigua and Barbuda refer only to 2007, and data for the Bolivarian Republic of Venezuela only to 2008; data for Honduras do not include 2008; data for Belize, Dominican Republic, Saint Kitts and Nevis, Saint Lucia, Suriname and Grenada (exports only) do not include 2009.



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Relative sector profitabilities entrench static comparative advantages (lock-in)

LATIN AMERICA: RETURN ON ASSETS IN KNOWLEDGE-INTENSIVE SECTORS AND MINING, 2003-2010
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information provided by the Special Studies and Projects Department of *América economía* magazine.



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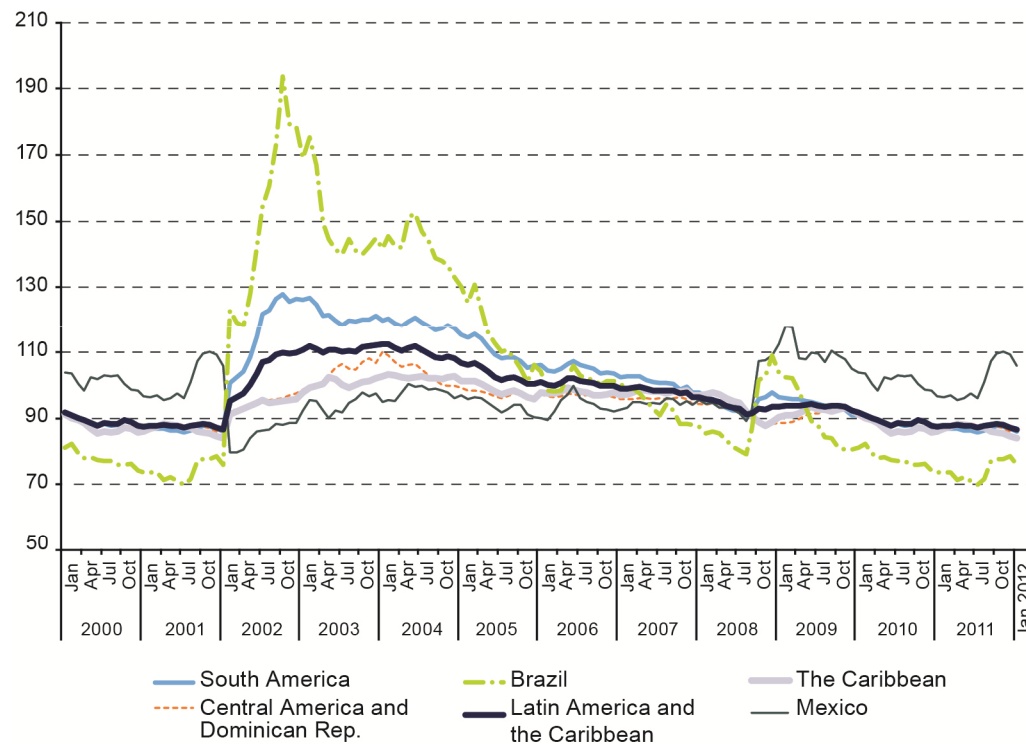


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Real exchange rate appreciation reinforces this pattern of specialization

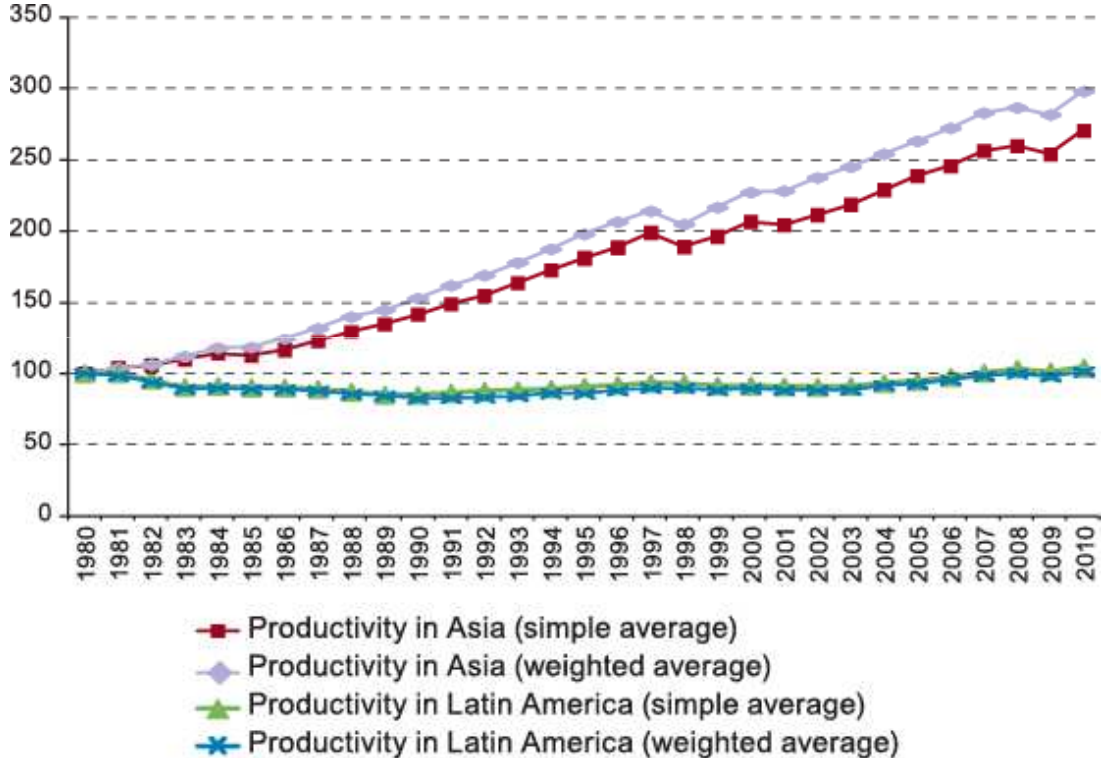
LATIN AMERICA AND THE CARIBBEAN: MULTILATERAL REAL EFFECTIVE EXCHANGE RATE, 2000-2012
(Index: average for 1990=100)



Fuente: Fuente: Comisión Económica para América Latina (CEPAL), sobre la base de cifras oficiales de los países.

Productivity gaps with respect to other regions have widened

LATIN AMERICA AND ASIA: PRODUCTIVITY GROWTH, 1980-2010
(Index 1980=100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).



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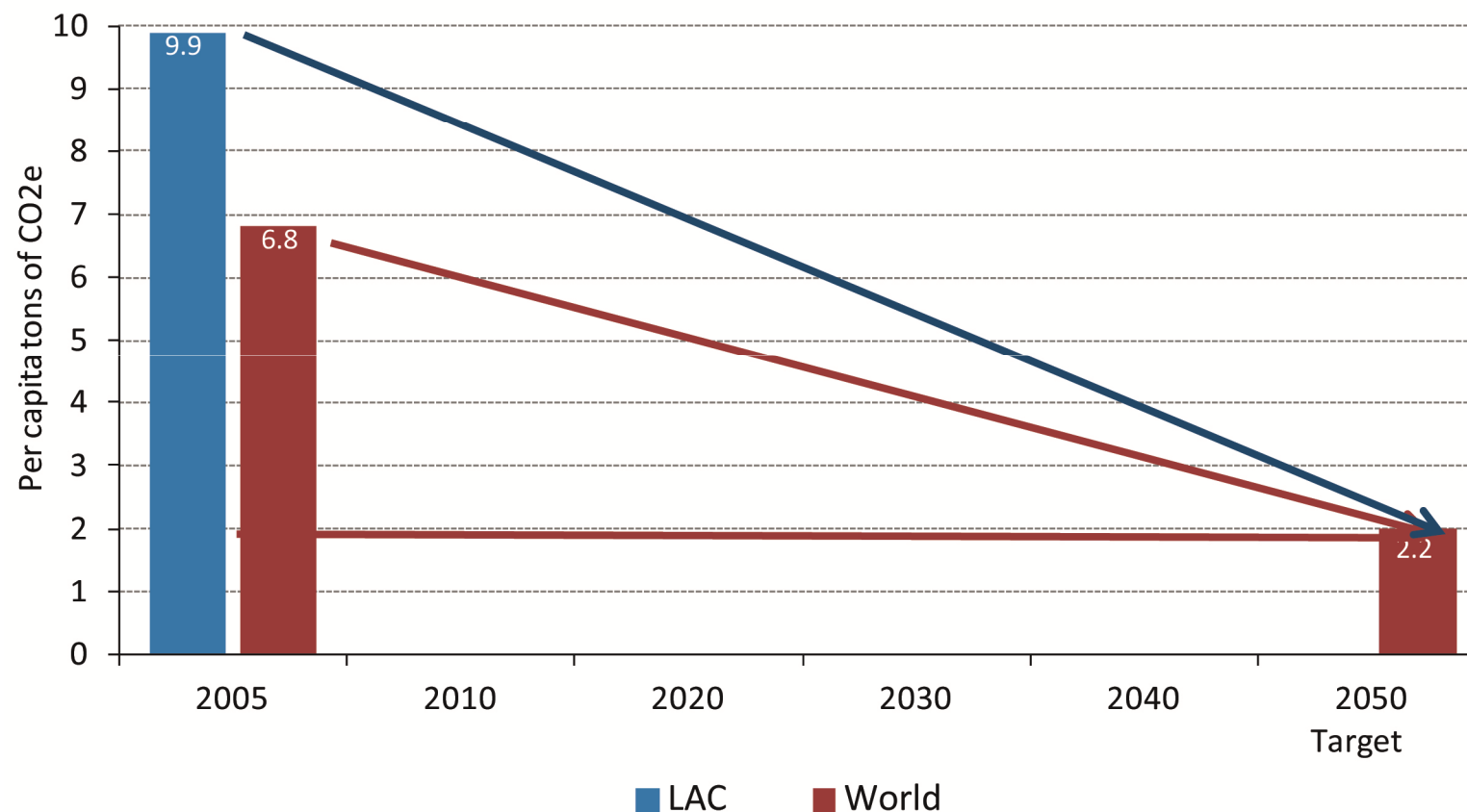


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Current production and consumption patterns are not environmentally sustainable...

World and Latin America and the Caribbean: total per capita CO₂e emissions for 2005 and target for 2050



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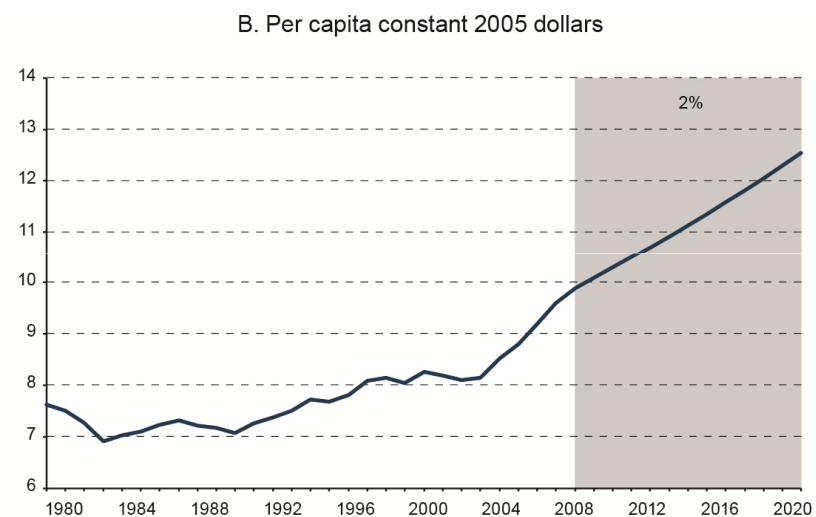
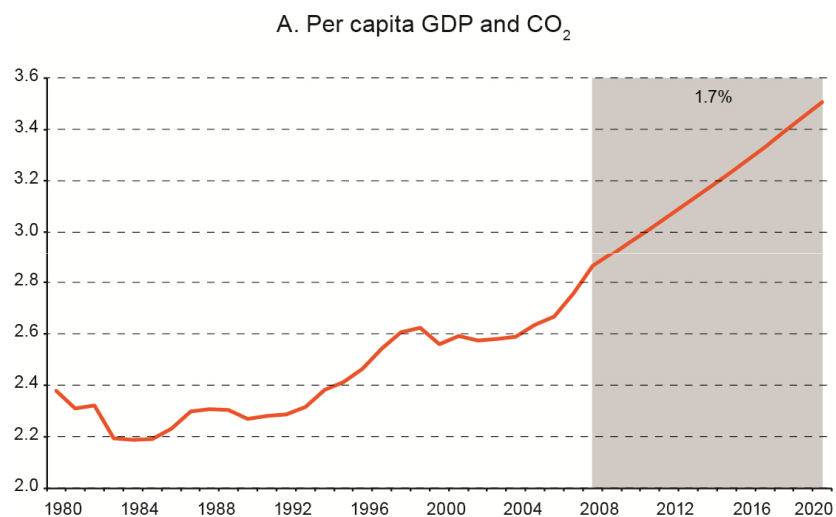


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...because they widen the emissions gap

LATIN AMERICA AND THE CARIBBEAN (21 COUNTRIES): BUSINESS-AS-USUAL SCENARIO FOR ENERGY CONSUMPTION AND PER CAPITA, 1980-2020, ^{a,b}



Source: Economic Commission for Latin America and the Caribbean (ECLAC) on the basis of information World Development Indicators del Banco Mundial.



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Investment as a vector of structural change and a bridge between the short and the long terms



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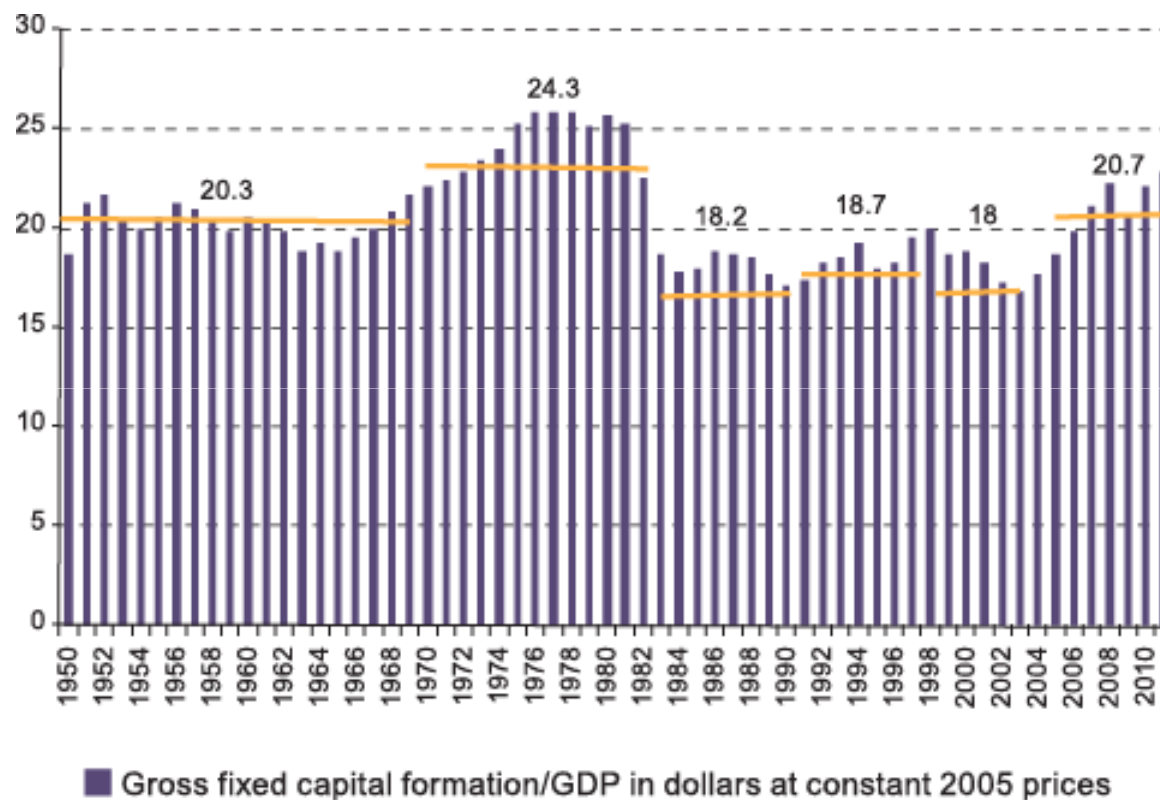
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The investment rate is still too low for development

LATIN AMERICA: GROSS FIXED CAPITAL FORMATION, 1950-2010
(Percentages of GDP, in dollars at constant 2005 prices)



Source: ECLAC, on the basis of official figures from the countries.



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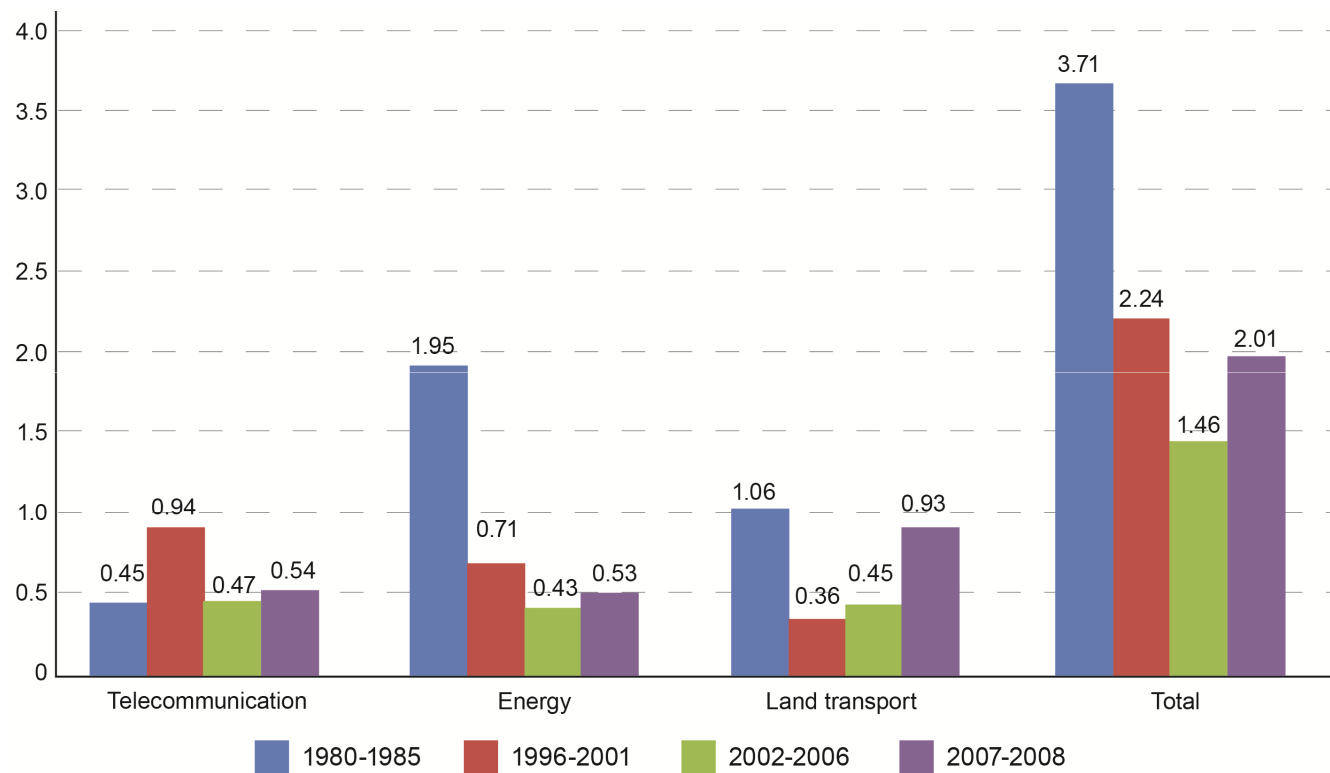


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Infrastructure bottlenecks hinder growth, competitiveness and equity

LATIN AMERICA (SELECTED COUNTRIES): SECTORAL INVESTMENT IN INVESTMENT
(Percentages of GDP)



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Causes of investment shortfall in Latin America and the Caribbean

- Undiversified production structure with poor linkages
 - Highly sensitive to terms-of-trade shocks
 - Volatile growth and shorter upswings than in other regions
- Volatility sharpened by unlimited financial openness
- Drop in public investment and its use as an adjustment variable
- Lack of long-term financing mechanisms



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A stark contrast

- In East Asia and the Pacific, GDP grew 42.4% on average during the upswing, which lasted almost eight years
- During the boom years the Latin American and Caribbean countries averaged just 25.3% growth over less than five years



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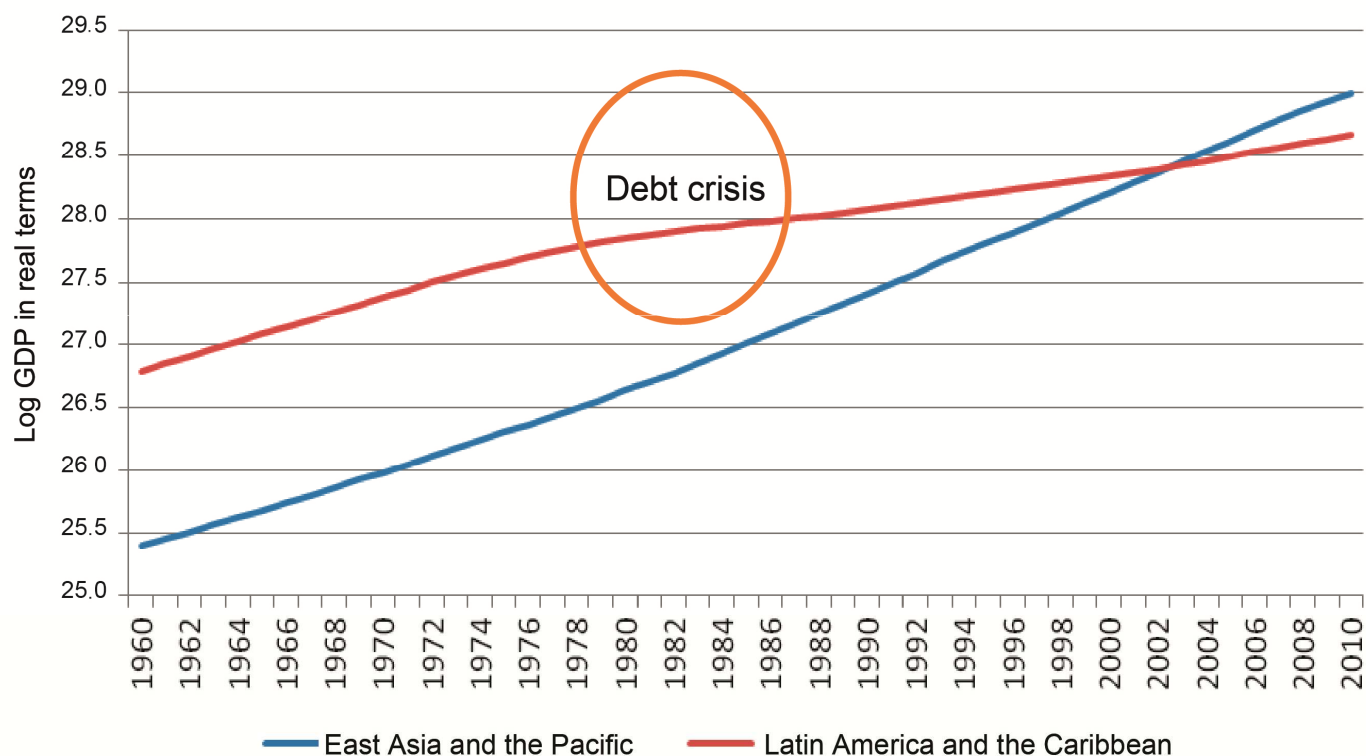
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Investment today shapes the structure and growth of tomorrow

TREND GDP FOR LATIN AMERICA AND THE CARIBBEAN AND EAST ASIA AND THE PACIFIC, 1960-2010
(Annual data in logarithms)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of World Bank, World Development Indicators.



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Social gaps and structural heterogeneity



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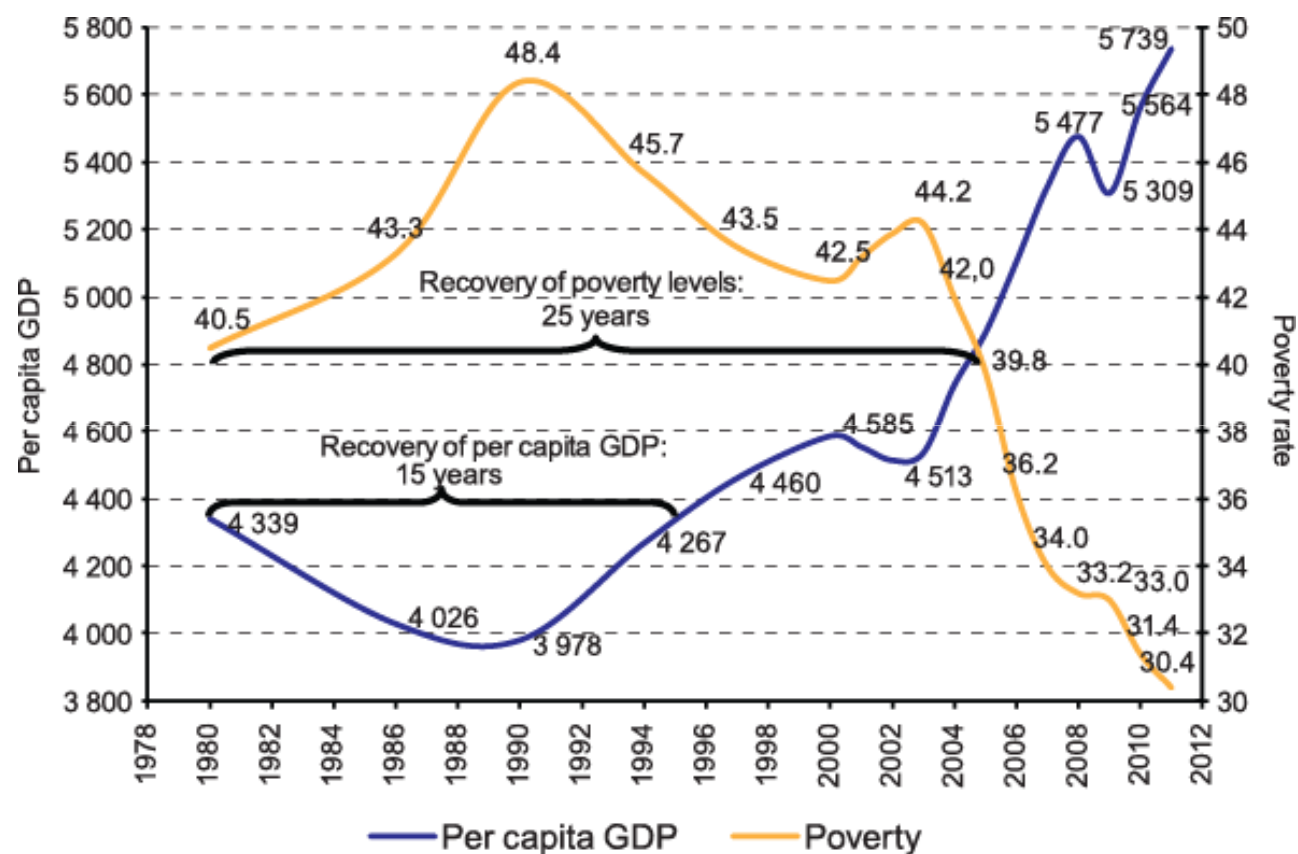


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Cycle: the crisis cut deep into the social fabric

LATIN AMERICA AND THE CARIBBEAN: COMPARISON OF PER CAPITA GDP AND POVERTY RATES, 1980-2011



Source: ECLAC, on the basis of special tabulations of household surveys



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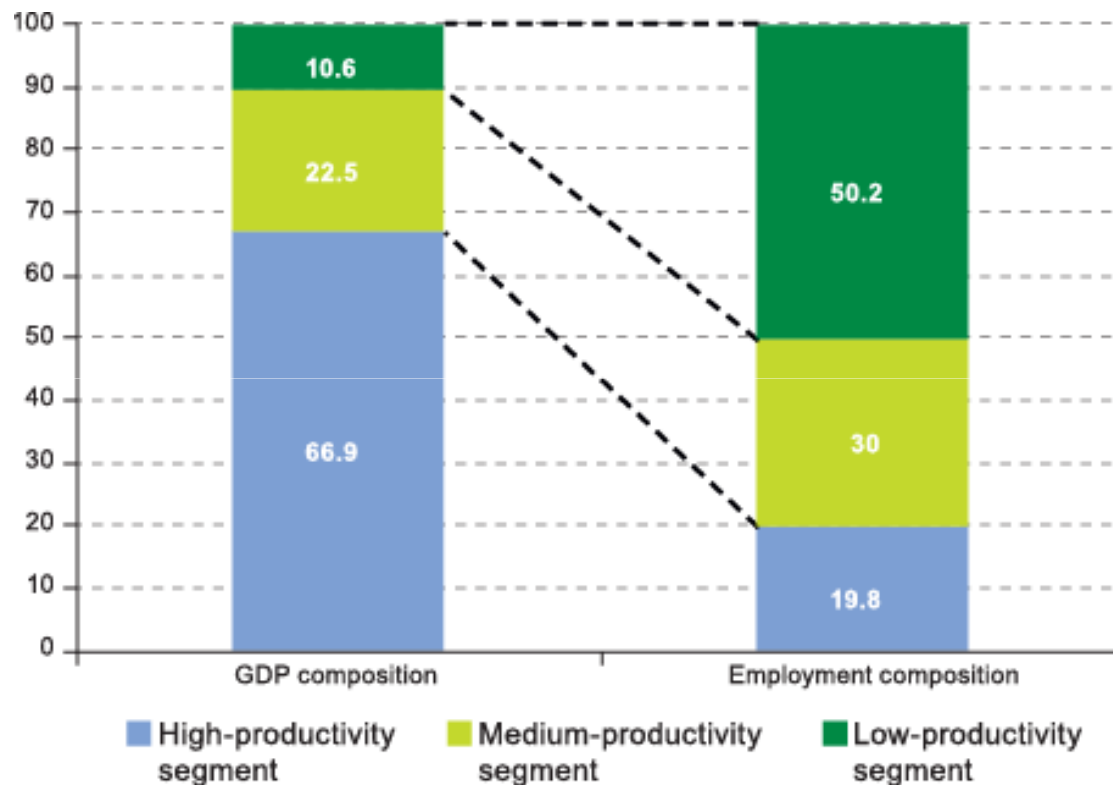


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Structure: employment is concentrated in low-productivity sectors

LATIN AMERICA (18 COUNTRIES): STRUCTURAL HETEROGENEITY INDICATORS, AROUND 2009
(Percentages)



Source: ECLAC, on the basis of R. Infante, "América Latina en el 'umbral del desarrollo'. Un ejercicio de convergencia productiva", *Working Paper*, No. 14, Santiago, Chile, June 2011, unpublished.



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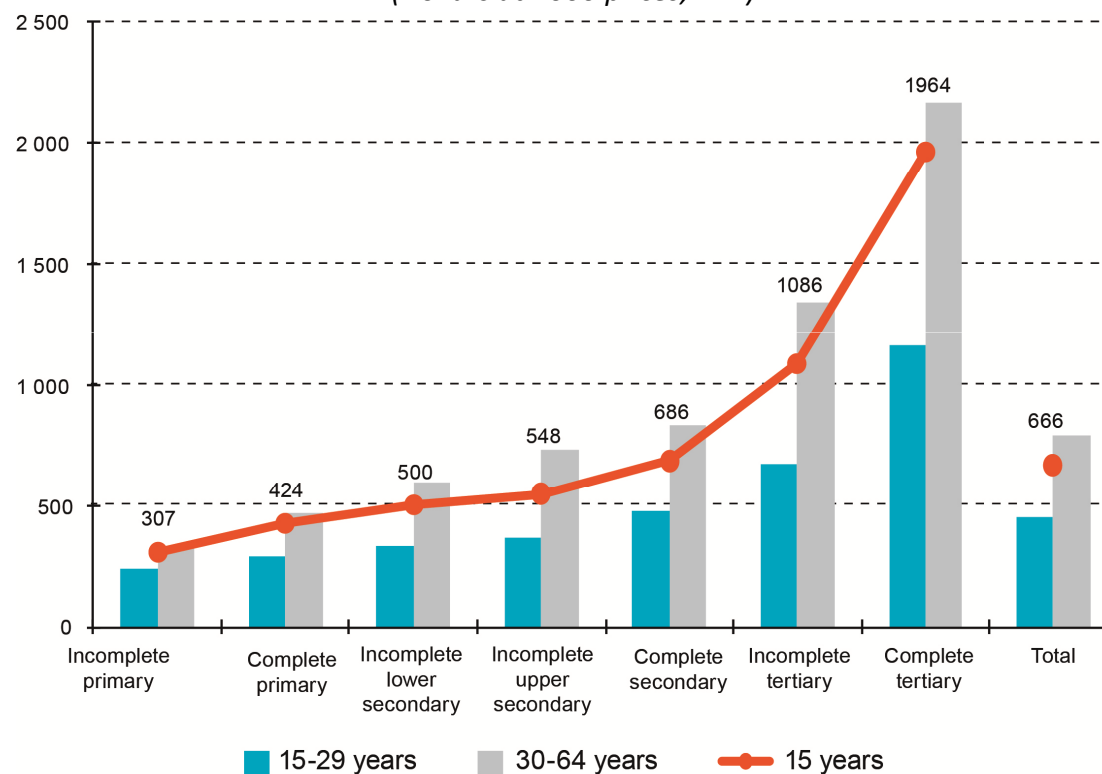


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Capacities: segmentation in education reproduces and widens labour inequalities

LATIN AMERICA (18 COUNTRIES): MONTHLY LABOUR INCOME OF THE EMPLOYED POPULATION,
BY AGE GROUP AND LEVEL OF SCHOOLING
(Dollars at 2000 prices, PPP)



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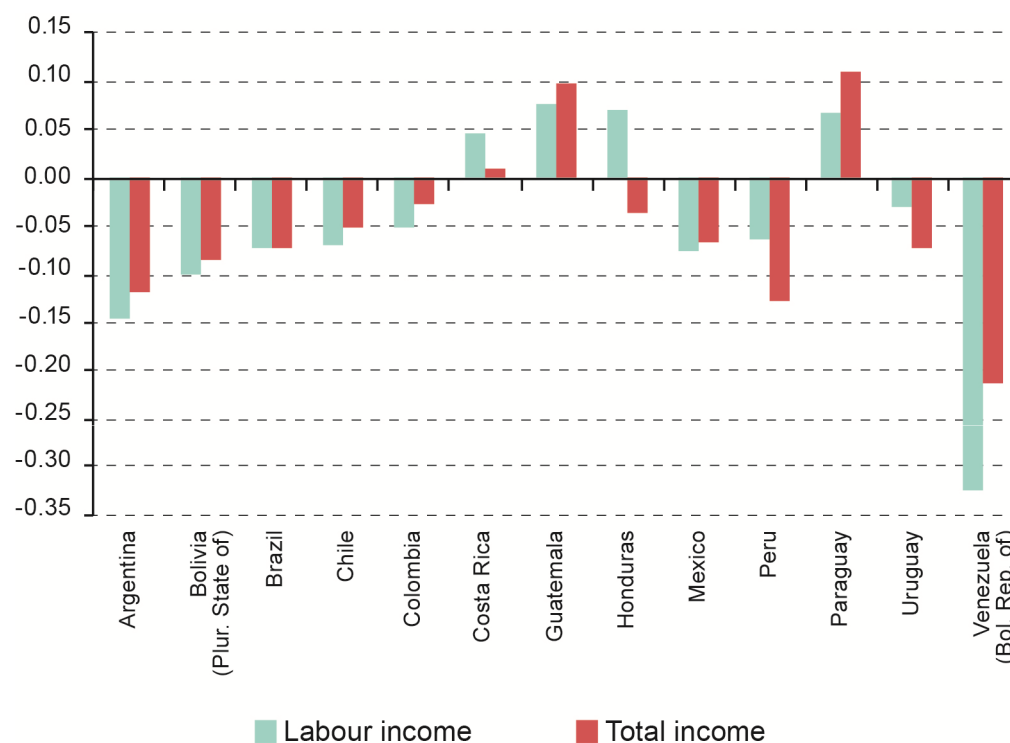


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Corollary: the production structure determines labour segmentation and income inequality

VARIATION IN INEQUALITY IN LABOUR INCOME AND TOTAL INCOME, GINI INDEX, 2002-2010



Fuente: Comisión Económica para América Latina y el Caribe (CEPAL), sobre la base de tabulaciones especiales de las encuestas de hogares de los respectivos países.

Social issues are not resolved in the social sphere alone



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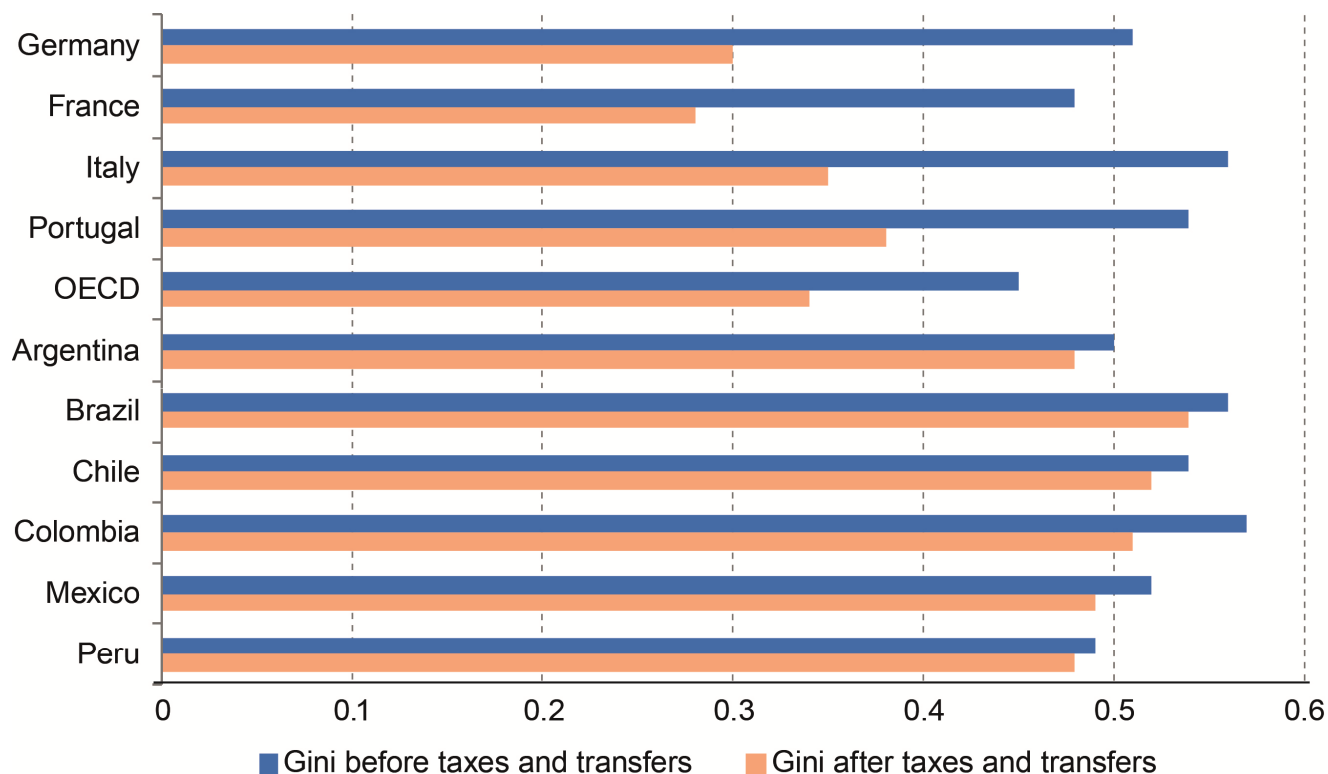


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Taxes and transfers do not correct inequality in the region in any significant way

LATIN AMERICA AND OECD: GINI COEFFICIENT BEFORE AND AFTER TAXES AND TRANSFERS



Source: CEPALSTAT for countries of Latin America and OCDEStat for the OECD countries.



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Policies for structural change for equality



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An integrated approach to development calls for policy coordination

- Industrial policy
- Macroeconomic policy for development
- Social and labour policy
- Environmental sustainability



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There can be no virtuous structural change without industrial policy

- Industrial policy strengthens and creates more knowledge-intensive activities
- It selects activities according to a future vision for sustainable development
- It shifts relative rates of return through market incentives and public policies
- It helps break lock-in by creating dynamic comparative advantages
- It invests in science, technology and innovation
- It boosts productivity of SMEs and microenterprises



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Implementation of industrial policy

- **Instruments** : fiscal and credit incentives for private investment, direct public investment, long-term loans, developing banking and public procurement
- **Make incentives conditional** upon results and learning trajectories
- Strengthen **social stakeholders** engaged with structural change
- **Paths are specific** to each country:
 - Size, initial competitive advantage and path before capacity-building
 - Institutional capacities and arenas for action that support the international trade regime



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Macroeconomic policies

- Just as social issues are not resolved in the social sphere alone, so production issues are not resolved in the production sphere alone
- Short-term macroeconomic policy, with an effect on the short-term, also exerts —by deed or omission— a strong influence on the production structure and on long-term growth trajectories.
- The economic structure bears heavily on short-run macroeconomic dynamics because it determines exposure to external shocks (terms of trade, availability of external financing, etc.)
- This calls for crafting a “macroeconomics for development”



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Macroeconomic policy for development

- Expands on the idea of nominal stability to include stability in financial markets
- It treats real stability (growth and employment) as a key objective
- It enlarges the toolkit for achieving nominal and real objectives



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Fiscal policy

- **Broad social agreements for building fiscal covenants**
 - Increasing tax revenues and making them progressive
 - Reducing evasion
 - Increasing the capture of rents from natural resources
 - Augmenting public investment and safeguarding social spending
- **Capacity for countercyclical action (fiscal space)**
 - Automatic stabilizers
 - Preserving external equilibria
- **Public investment: crucial for structural change**
 - Determining the amount and target of public investment in keeping with long-term industrial and social policy objectives



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Monetary and exchange-rate policy

• Objectives:

- Avoid tendencies towards real currency appreciation
- Prevent debt from spiralling out of control, including in the private sector (external and internal)
- Safeguard autonomy in monetary policy management

• Instruments:

- Managed float exchange-rate regime
- Administration of international capital flows
- Macroprudential regulation



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In the social arena: redistributive policies and capacity-building

- **Redistributive policies**
 - Social protection systems aimed at universal coverage
 - Strengthening the non-contributory pillar of social protection
 - Crafting fiscal policy so that State action has a progressive impact on income distribution
- **Training and capacity-building**
 - Rethinking and redesigning education and training systems and ways to disseminate use of ICT
 - Training for the job market: ongoing acquisition of new skills and knowledge through training and on-the-job learning.



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Protecting vulnerable sectors during the initial phases of structural change

- Virtuous structural change improves income distribution over the long run by generating employment in high-productivity sectors
- Changes in the demand for labour may temporarily increase labour market segmentation
- Social safety nets must therefore be broadened by means of:
 - Non-contributory transfers
 - Minimum wage policy
 - System of intermediation, training and unemployment insurance



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Labour institutions for structural change with equality

- An institutional structure designed to ensure that productivity gains lead to improvements in distribution and employment quality:
 - Share of workers in corporate profits
 - Strengthening unionization and collective bargaining
 - Institutionalizing social dialogue
- Promotion of gender equality in the labour market and care systems



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Necessary integration of policies

- Macroeconomic and financial objectives must be made compatible with industrial, social and environmental policy goals.
- Fiscal policy must ensure that public investment contributes to structural change, in terms of amounts and target sectors.
- Use of a wider array of instruments combining monetary, exchange-rate and financial policies, including macroprudential measures, and administration of capital flows.
- Social policy is key to the transition towards structural change.
- Strengthening the role of the State in the framework of a social dialogue for a development agenda aimed at structural change for equality.



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Opportunities for broader and deeper regional integration

- Strengthening integration agendas: intraregional trade, investment, infrastructure, policy coordination and development of value chains.
- Harnessing strategic opportunities with Asia, especially China.
- Closer regional cooperation to tackle global challenges (global governance, financing for development, Rio+20, development agenda beyond 2015).



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A central role for the State and politics

- An integrated approach to long-term development that dovetails the economic, social and environmental dimensions needs actors who are engaged, committed and coordinated.
- A robust and efficient institutional structure to promote, select, regulate and finance the steps needed to take a proposal to the implementation stage.
- A stronger role for the State and politics is key to building the political will to achieve structural change for equality.



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Structural change, equality, economic growth and environmental sustainability should not be mutually exclusive

- **Growth** for equality and equality for growth
 - With macroeconomic policies: fiscal, monetary and exchange rate policies that mitigate volatility, shift relative returns in key sectors and encourage investment.
 - With industrial policies that create and strengthen sectors and close internal and external gaps.
 - With environmental sustainability to change production and consumption patterns.
- **Equalizing** by building human potential and actively correcting disparities
 - Universalizing rights and social benefits
 - Driving inclusion from within the labour market
 - Achieving greater territorial convergence
- With a **better and more efficient State** for redistribution, regulation and oversight.



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